

Message Text

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ACTION EA-12

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CINCPAC

C O N F I D E N T I A L VIENTIANE 0132

CINCPAC FOR POLAD

E.O. 11652: GDS
TAGS: EALR EINV EPAP ETRD LA JA
SUBJECT: LPDR CANCELS CONTRACT OF ONLY PRIVATE FOREIGN INVESTOR

REF: 77 VIENTIANE 1211 NOTAL

1. ACCORDING TO A FOREIGN BUSINESSMAN CLOSELY INVOLVED
IN THE DEAL, THE LPDR CANCELLED IN MID JANUARY 1978 THE
CONTRACT NEGOTIATED IN AUGUST 1977 WITH THE PRIVATE
JAPANESE LOGGING FIRM OTSUKA, REPORTED REF A. THE LPDR
AUTHORITIES GAVE NO REASONS FOR THE ABRUPT CONTRACT
CANCELLATION AND HAD SO FAR REFUSED TO NEGOTIATE A NEW
CONTRACT OR REPAYMENT OF MONEY THE FIRM HAS ALREADY
PAID TO THE LAO. THE SOURCE SAID THAT OTSUKA HAD
ALREADY INVESTED ONE MILLION DOLLARS BOTH IN IMPORTED
HEAVY EQUIPMENT AND IN PAYMENTS TO THE LPDR. IN
ADDITION, OTSUKA HAD GEARED ITS FURNITURE PLANT IN
JAPAN TO PROCESS THE TROPICAL WOODS FROM THE LAO
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LOGGING VENTURE AND STOOD TO SUFFER HIGH LOSSES NOW
THAT IT HAD NO RAW MATERIAL SOURCE.

2. AN OFFICIAL ON THE ADB TEAM VISITING LAOS TO CON-
DUCT STUDIES FOR POSSIBLE PROJECTS TOLD AN EMBASSY OFFICER
JANUARY 19 THAT THE TEAM'S FORESTRY EXPERT WAS ASTON-
ISHED AT HOW HIGH THE MARK-UP WAS BETWEEN THE PRICE

PAID TO THE LAO BY OTSUKA AND THEIR FINAL SELLING PRICE IN JAPAN. HE SAID THAT THE ADB FORESTRY EXPERT INTENDED TO INFORM THE LAO THAT THE CONDITIONS OF THE CONTRACT WERE UNFAVORABLE TO THEM.

3. COMMENT: THE FAILURE OF THE FIRST AND ONLY PRIVATE FOREIGN BUSINESS VENTURE TO BE ESTABLISHED UNDER THE LPDR REGIME COMES AS NO SURPRISE, GIVEN THE LAO AVERSION TO FREE ENTERPRISE AND DISTRUST OF "CAPITALISTS". DESPITE THE LPDR PRIORITY TO DEVELOP ITS FORESTRY INDUSTRY, IT LACKS THE CAPITAL TO DO SO ITSELF AND THE EXPERTISE TO EVALUATE FOREIGN SCHEMES AND ADVICE. NO MATTER HOW UNFAVORABLE THE OTSUKA CONTRACT TERMS WERE, THE LAO ARE NOW LEFT WITH NO MAJOR LOGGING SCHEME, MARKETING SYSTEM, OR SOURCE OF EXPORT INCOME AS A RESULT OF CANCELLING THE CONTRACT. FURTHERMOERE, IT IS EVEN MORE UNLIKELY THAT ANOTHER PRIVATE FOREIGN INVESTOR WOULD CHOOSE TO TAKE THE EVIDENT RISKS INVOLVED.
ROBERTS

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